

History of Exports, 1964-1966.

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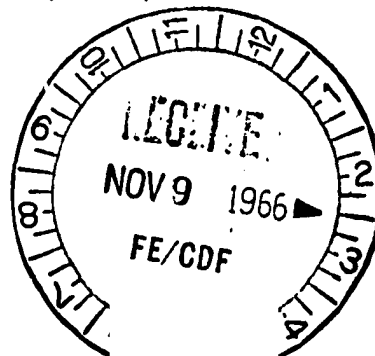
HISTORY OF EXPORTS
1964 - 1966

OFFICE OF

EXPORT DEVELOPMENT AND PRIVATE ENTERPRISE
UNITED STATES OPERATIONS MISSION TO KOREA

Contract No. AID/fe-95
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Introduction

As called for in my contract with the Agency for International Development dated June 18, 1964. This report, together with the attached "Report to Korean Government 1966 Export Development" should be considered my final report in my capacity as advisor to the Korean Government on export promotion and private enterprise. The attached report is, in itself, a complete and detailed analysis of the problems as they exist as of this writing, together with a series of recommendations and suggestions to the Korean Government that should assist in further developing the export program. This report was presented to the Korean Government at a meeting of the Economic Co-operation Committee held October 21, 1966. This meeting was presided over by Deputy Prime Minister Chang Key Young, EPB and Mr. Joel Bernstein, Director, USOM/K and by a number of the Ministries and other officials of the Economic Ministries.

In the course of the last two years I have also submitted monthly reports, and numerous separate reports on special problems and activities. All the above contain within themselves detailed descriptions of many activities for the past two years. There is very little that I can add at this point that has not already been amply covered. It is, therefore, my belief that the most useful service I can render in this paper is to describe in broad terms methods used in developing of the export program for Korea during the past two years, and the steps that were taken to assist in its success. While such developments must, of necessity, be unique to the time and country in which they take place the story here nevertheless, may possibly be useful to activities in other parts of the world where similar conditions exist.

General Conditions, November, 1964

The first report prepared by this office covering the months of October and November 1964, contains the following statements:

"Korea is at a turning point in its industrial development. The first period after the War required recovery and the development of the basic industries. In the future there will be required more and new development in power, transportation, mining, agriculture, and other basic industry. However, sufficient advances have been made so that Korea is turning to the production of consumer goods and export items. This process must now be given considerable attention and effort. Correcting the balance of payments situation is of such paramount importance that a major effort to increase exports is essential. Concurrently and necessary both to this effort and to the raising of the standard of living is the development of the private sector of industry, the increase of the medium-sized industries, the food industries, and the promotion of foreign investment. Although there are many products in which indigenous raw materials can be used such as fish and seafood, fruit, ceramics, silk, certain mining products, livestock and other agriculture products, etc., most of the development involves the processing of the combination of indigenous and substantial quantities of imported materials.

"The major asset available is low wage labor. Low wage labor is only low cost labor if it is also at least partially efficient and if there is a fair amount of good productivity. Korean workmen are intelligent, literate, ingenious, learn quickly and have good mechanical aptitude. Therefore, with some management and technical training it can also become highly competitive. In Japan, Taiwan, the Philippines and other East Asian countries, the wage level has been increased and there is a drop off in the industries depending on low cost labor. In the long run the greatest industrial development will occur as a result of a higher standard of living induced in part by higher productivity, higher wages, and larger consumer consumption and export development. In the growth period, and certainly at present, Korea can fill this gap. In the process it will further expand its own consumer and export industries."

In that report we listed the major problems we foresaw at that time. There was a long list which included problems of: quality control; quality standards; design; business ethics, taxes, customs and financial incentives; availability of raw materials; delays due to paper procedural work. Also included were sales and problems of marketing, overseas activities, market research, difficulties for businessmen to travel abroad, and many others too lengthy to list here.

One of the major problems was poor coordination between government ministries and agencies concerned with these problems, and with the private business community. In addition, there were and still are no branches of foreign banks having offices in Korea.

Institutions 1964

Although exports for the previous year (1964) were valued at \$83,000,000, there were already a number of existing institutions and organizations that were concerned with development in this area. The Korea Trade Promotion Corporation, a government agency which was in existence for several years, had developed a staff and an overseas organization. The Ministry of Commerce & Industry had an export section, and the Ministry of Foreign Affairs in the beginning of 1964 took over the commercial attaches in the various overseas offices who were previously under the responsibility of the Ministry of Commerce & Industry. The leading private organization concerned with trade was the Korea Traders Association; the other two major business organizations were the Korea Chamber of Commerce and Korea Businessmen's Association. In addition, the Bank of Korea and the Economic Planning Board were involved in activities in the development of exports.

There were, however, only casual and uncoordinated relations between all the elements and organizations involved. There was also lacking an overall programmatic and policy approach to the problems involved.

Export Situation, 1964

Exports up to that time were as follows:

| | |
|------|--------------|
| 1960 | \$32,375,000 |
| 1961 | 42,901,000 |
| 1962 | 65,702,000 |
| 1963 | 84,368,000 |
| 1964 | 120,851,000 |

A good portion of these exports were in basic raw materials such as tungsten, coal, clays and silk yarn. While there were a number of manufacturing industries in existence, and a few quite modern, they were primarily serving the domestic market. Businessmen's business philosophy was based on the inflationary economy then in existence. Large profits could be made by importing and distributing raw materials and other products, by construction, land speculation, and building of factories and inventories. In such an inflationary economy, efficiency of operation was unimportant. Production in competition with the international market was not as attractive as the other means of profit making.

Exporting required careful attention to quality, design and price. In addition, Korean businessmen had little or no contact with the outside world, and were unfamiliar with markets, market research, and methods of doing business abroad. At the same time, the rest of the world had little knowledge of or faith in Korean products.

Stabilization

The balance-of-payments deficit for 1963 had been \$228,900,000 and for 1964 \$57,300,000. With the AID program's shift from grant aid to development loans, and the prospect of future decreased aid, it was increasingly evident that Korea's future economic health depended upon planning towards correction of the balance-of-payments situation, and developing its manufacturing industries and export trade to accomplish the above. The first step of necessity, was the establishment of the stabilization program and a floating rate of exchange. With the assistance and help of USOM, the Korean Government developed measures to accomplish this. The stabilization program was announced, and a floating rate of exchange was put into effect in March, 1964. The rate of exchange moved up from approximately 250 Won to the dollar, to 270, and it has remained at that level until this writing. While the legal steps had been taken, there was still a big job of education of the business community. A stable economy and floating rate of exchange required an entirely different kind of business philosophy. Business had to turn its thoughts toward efficient operation, stable financial management, and the development of exports. This, in turn, required an outward look. Stabilization gave the basis for export development, but there was required an overall program that would tackle the many problems that Korean industry faced to make it possible to achieve substantial export goals.

Program Development

Since a coordinated, overall approach was required, the USOM Director had determined that a similar approach was necessary within the USOM structure. The development of an export program involved every aspect of USOM activities - - programming, economics, finance, industry, technical assistance, agriculture, fishing --- were all involved. The Director established my job which was to act as a focal point for ideas and coordination of activities in development of this program.

Obviously, export development would be primarily created by the manufacturers, traders, and business community. It was essential that government formulate the policies and control that would stimulate the businessmen into this effort. It therefore was necessary to become acquainted with the business community, as well as the government officials concerned with this activity. While the Mission had, of course, in previous years developed a great many contacts with the business community, because of the nature of its activities, there was no central focal point for these contacts. They had been developed primarily in specific industries and companies to which the Mission had granted loans or assistance. It was important that the business community, through its collective leadership, should have a means of exchanging opinions with the Mission through intimate contact and also have a sense that its opinions were being listened to.

I spent the first several months meeting with the executive committees of all the major and many of the minor business association, both in Seoul and other cities in the country. Out of this developed a regular series of small luncheon meetings with the key organizations. The most important of these was a bi-monthly meeting with the Presidents of the "Big 3", the Korea Businessmen's Association, Korea Traders Association, and Korea Chamber of Commerce. There was limited attendance, and without fanfare or publicity. At these meetings I was accompanied at times by the Director, Deputy Director, Deputy Chief of Mission or Embassy Economic Officer, and other senior-level staff members of USOM and Embassy. These meetings in the course of the last two years have proven extremely valuable, and the businessmen have repeatedly stated they found them a new and fruitful means of communication and a method of cooperation. In addition, there were separate monthly luncheons with top staff of each of these organizations. There was a weekly luncheon with the President, and occasionally other staff members of the Korea Trade Promotion Corporation. Later when the Korean Marketing Association was established, they were included in the regular list of bi-monthly luncheons. Although with considerably less power, but of great importance was the organization of Medium Industry Cooperatives Federation. This organization represented 65 other cooperatives, with a total membership of approximately 7,500 small businesses. There were unplanned but innumerable meetings and luncheons with trade organizations and individual businessmen, both for the purpose of getting their point of view, and to make their acquaintance. To inform myself of industrial capabilities, I have visited a great number of factories throughout the country.

The next task was to become thoroughly acquainted with every element within the government structure that would have a function in the development of exports. The main responsibility had been established within the Ministry of Commerce and Industry. In the area of agricultural exports, the responsibility was in the Ministry of Agriculture and Forestry, and the Office of Monopoly had the responsibility for tobacco, ginseng, and any other products it controlled. There was then and still exists today in a much lesser form, an attitude in other ministries, and in MCI itself, to consider the entire responsibility that of MCI, with the small exceptions noted above. Problems in the development of exports involved, in addition to the above, the Ministry of Finance, Ministry of Foreign Affairs, Ministry of Transportation, customs officials, inspection agencies, the government-controlled banking institutions, and a great many quasi-official trade organizations.

While there existed communication between the various agencies and ministries, it became obvious that a coordinating agency should bring together both the public and private organizations involved in this effort. There had been established on paper a committee that would accomplish this. Also included was a USOM representative on this committee. In practice the committee was non-existent, and I began to probe the feelings of the various elements regarding such a committee. While there was general agreement as to its usefulness, much of the acceptance was mere lip service. Inter-ministerial prerogatives, distrust between the business community and government agencies, and general inertia mitigated against activation of such a structure. It required a continuous campaign of explanation and education to gain complete acceptance of this concept. In March, 1964, as part of the export development program, the committee was officially established as a sub-committee of the Economic Cooperation Council. By agreement between USOM and EPB at the highest levels, USOM representatives were made part of this committee. The co-chairmen of the Export Promotion Sub-Committee were the Vice Minister of Commerce and Industry and the Deputy Director of USOM. The steering committee consisted of the Assistant Minister of MCI and me. Membership included a number of vice ministers of the economic ministries, high-level representatives of the banks, the President of KOTRA, and the Presidents of the four major business organizations mentioned above. After careful consideration and consultation, a whole series of working groups were established. They consisted of staff-level representatives of appropriate ministries and private business organizations with specific assignments of finance and taxation, marketing, quality control, information, procedures, agriculture, seafood, heavy industry, light industry, and mining. Each of these working groups had an appropriate USOM technician as a member.

The activation of these working groups required considerable effort on the part of the steering committee. At first it was the inclination of its members to consider that the working groups existed merely to concern themselves with measures directed toward obtaining assistance from USOM. As their work progressed, they gradually began to function as overall policy-making committees formulating plans and recommendations for implementing the basic export program established by the government. Since this committee was not a government agency, it had no power other than to make recommendations. However, the

record for the past two years shows almost all of the recommendations proposed by this committee were adopted by various government agencies. The recommendations that it had formulated during the first year became, to a large extent, part of the export program for the second year. As the overall program developed, government institutions and private organizations more and more took on the functions required for its implementation. The committee's work changed to one of formulating broad policies. During the second year, the number of working groups reduced, the number of meetings lessened, as did the number of people required in attendance. We have recently recommended that for the coming year the structure be re-examined in the light of its experiences, and its functions be further reduced.

Toward the end of 1965, and again in 1966 a complete report was prepared and presented to the Economic Cooperation Council. The report presentation was attended by the Deputy Prime Minister and USOM Director as chairmen, and the ministers and other important officials of the major economic ministries and government organizations concerned. These reports were given serious attention, and its recommendations assisted in formulating government policy and actions.

There is no doubt that the success of export expansion was assisted by the formation and the activities of the EPSC.

Export Program

Early in 1964, the Korean Government determined that export development was to have a very high priority in its economic development program. Exports for 1964 reached more than \$120 million. President Park by public announcement, proclaimed the high priority given to this program. He instituted a monthly meeting at the Blue House at which he was personally given the latest report on the program. The whole machinery of government was put behind this activity.

The first step was the formation of an export program. It was decided that an overall program should be developed. The direction of formulating this program was given to the then Assistant Minister Lee Chul Seung of MCI. He asked USOM for assistance. The USOM Director gave high priority to this work. The USOM Export Committee and many elements within the Mission with the personal participation of the Director and Deputy Director, devoted many hours to aiding in the development of this program. There were daily and continuous consultations between the Assistant Minister and the USOM Export Advisor. The program as finally formulated, was a mixture of broad policies, a statement of purpose in certain fields, specific and detailed implementation measures in others, and a series of predictions. Some of it was poorly defined and overly generalized, but most of all it was an attempt to bring into one program every phase of activity required. It included financial and taxation measures, a series of studies, technical instructions, research proposals, marketing measures, references to specific industries, and the establishment of some new, and strengthening of other required institutions. The important thing was that in one single program were brought together all the elements and measures required to carry out the President's instructions. Included in the program was the establish of the EPSC previously described.

Implementation

Because of the nature of the program, it became the task of government agencies and the EPSC itself to analyze and develop the ideas in the program, and make recommendations accordingly. Obviously, it was impossible to undertake the development of the program covering every industry and commodity. It was necessary to select those that gave the most promise. The criteria that was established stated that the effort should be directed toward developing products with the biggest foreign exchange earnings, towards industries that use native raw materials, commodities with the highest labor content, and where existing facilities and expansion required the smallest capital outlay. In practice, these rules could not be completely adhered to. The biggest single factor for the developing industries was the market for the products so produced. Information available indicated that consumer goods and semi-durable products, with certain food products, would be the major industries involved.

Since it was necessary to have a commodity-by-commodity approach, there were assigned by MCI and MOFA about 35 commodity chiefs, each representing a single commodity. While reporting directly to the ministries involved, they also coordinated their activities with the various working groups of EPSC. Each commodity chief was required to submit reports to the appropriate working group. It was suggested by EPSC that within each industry each commodity chief should work with the representatives of that industry to set up a committee in an advisory capacity. This instruction was carried out in some areas, but was not fulfilled in others.

USOM technical advisors, being attached to every committee were able to assist and give the benefit of their experience and knowledge to each committee. This entire structure, while spotty in some areas, or well developed in others, nevertheless was extremely helpful at every level of activity in the export field.

One of the great problem of the Korean Government was the inexperience of a substantial part of its staff. The 1961 coup had removed from office almost every element previously involved in government. Most of the new staffing was young, new and inexperienced, and very few of them had any actual business or trade experience. Therefore, this structure described above also assisted in training and educating middle-level government officials.

Marketing

As the stabilization program took effect, the business community very rapidly accepted the new philosophy required to operate within this new framework. With the impetus of stimulating measures, and benefits and priorities given to exports by the government, more and more industries became interested and involved in this activity. Because Korea had for so many years been a "hermit kingdom", which was followed by Japanese occupation and two wars, businessmen had very little experience in dealing with the foreign business world. Business methods, quality control, design requirements, and above all,

methods of marketing were little known. For the same reasons, the outside world, and particularly the commercial world, had little knowledge of Korea and its possibilities. Even though Korea was already manufacturing many items that were acceptable, they were little known or appreciated.

There was a lack of knowledge by Koreans of the necessary steps to be taken to put their goods on the international market. Overseas activities and budgets of KOTRA were limited. Travel by private businessmen had been hampered with many restrictions and difficulties in obtaining foreign exchange. Few buyers were interested in coming to Korea. It became obvious that an extensive program of overseas marketing activities would have to be developed. While Korea already had many products that could be sold, she had many more that were close to meeting the requirements of the international buying community, but not quite up to par. With her low labor cost, there was a danger that the anxiety to sell would bring to Korea many "bargain hunters", people who were interested in one-shot deals, buying the lowest quality goods. The first period of Japan's post-war development was precisely along these lines, and it took Japan many years to overcome the reputation it had developed for producing low-priced, low-quality goods.

As a matter of policy it was determined efforts would be made to prevent Korea from going through such a period. In order to do this, it would be necessary to attract buyers from the large chains who were interested in purchasing articles in the middle-price level. Since Korea's major export item was inexpensive labor, she could not compete against mass-produced, high-volume industries in the advanced countries. Only in such commodities where there was a large labor content could her advantages be felt. However, this also entailed a quality requirement that needed careful attention. It was determined to attempt to attract buyers who would take a "developmental" approach to purchasing in Korea. In other words, such companies who would be willing to assist with technical help and guidance, and who would be prepared to put their time, effort, and possibly money in initial small-scale purchases which would eventually lead to creating good sources of supply.

In accordance with the above policy, it was suggested that an attempt be made to induce the top executives of the leading store buying chains in the United States to come to Korea. For this purpose it was necessary to mobilize the leading business organizations, KOTRA and the American Chamber of Commerce in Korea to undertake this project. Because of the inexperience described above, the business organizations were reluctant to invest funds in a project they felt would not bring any immediate results. It was important this project be financed by the Koreans themselves. The sum involved was not large, but it took considerable convincing to get agreement on this matter. Finally a committee was established, and the funds pledged.

Although there had been considerable correspondence with the American buying chains, there had been no great enthusiasm on their part for participation in this project. It was therefore determined that Mr. Oh Pum Sik, President of KOTRA and me should go to the United States, visit the heads of important buying chains, and deliver personal invitations to come to Seoul as guests of the Koreans. The assistance of AID/W, the U.S. Department of Commerce and its

various field offices, Korean embassies and consulates was invoked. Through the U.S. government agencies it was possible to "open the door" to meet the highest executives of these organizations.

We also took advantage of our presence in the USA to meet with many leading banking institutions, discussing potential trade and investment in Korea. Numerous meetings were held, conferences arranged in Washington, New York, Chicago, Los Angeles, San Francisco and Seattle. R. H. Macy in particular, who had previously opened an office in Seoul, was very helpful in assisting through personal solicitations of the many other chains. The trip proved highly successful. In October, 1965 the representatives of nine of the largest American buying chains arrived in Seoul. These included representatives of J. C. Penney, W. C. Grant, Sears Roebuck, Montgomery Ward, the May Company chains, Allied Stores, Macy's, Amerex Corporation and Woolworth. There were several others that could not come at that time, but arrived later. An extensive program of exhibits, factory visits and conferences were arranged by the Koreans under the leadership of KOTRA. Meetings with top level Korean and American Government officials were arranged. The total retail business in the United States represented by these groups was in the neighborhood of \$15 billion annually. While it would be a gross exaggeration to claim this trip opened up Korea, it nevertheless paved the way for a great many of the buyers who subsequently have come here. Some of these companies opened offices; others have made arrangements with Korean trading companies to represent them; and substantial purchases are taking place. Some companies finding a potential source of supply, carried out the developmental approach by sending full-time technicians to assist Korean factories in improving the quality and design of their products so that they might be acceptable. Others assisted through their buying agents, and by sending in professional buyers in the various lines of interest. R. H. Macy decided to include Korea and its products in its "Far East Festival" which took place in September, 1966, and which was highly successful.

Partly because of this, and because of the information the world was beginning to obtain about Korea, there has been an ever-increasing flow of buyers and businessmen coming to Korea.

TRADE MISSIONS

Also while on this trip, we visited the Chicago and Seattle Chambers of Commerce, both of whom were planning Far East trade missions. Plans for the Chicago group had already advanced too far to permit a change, but were able to induce the Seattle group to include Korea in their itinerary. Governor Evans of the State of Washington accompanied this tour, which also proved to be highly successful in making Korea better known to the American business community. The Koreans were themselves organizing trade missions to various parts of the world including Japan, Southeast Asia, Africa and Europe, and missions from many of these countries were coming to Korea both on their own, and at the invitation of various Korean business groups and KOTRA.

Before departing on the above mentioned trip to the United States, arrangements had been made through AID/W and the Department of Commerce for the Korea Businessmen Association to send a large trade mission to the United States. Seventeen top-level businessmen and bankers spent three weeks in the United States, meeting business leaders, merchants and bankers, visiting stores and factories, and in general, making excellent contacts.

Production Problems

As previously explained, Korean industry, with some exceptions, was inexperienced in the requirements of quality, design, packaging, specifications and price that would enable them to compete internationally. Major problems in technical development, equipment, productivity, and cost accounting remained to be solved. This required a broad attack on these problems, both by industry and on a commodity-by-commodity basis. There were already several Korean institutions working in these areas. The Korea Productivity Center, established several years previously, had been devoting most of its attention to management training. The National Industrial Research Institute which was largely equipped with AID funds, was the responsible government agency for quality testing. It was not sufficiently utilized, and it required more and better training staff. Research institutes attached to some of the universities were inadequate. Private company laboratories and testing equipment varied from company to company, some very good, but most inadequate, inefficiently used, or non-existent. There was much work to be done.

The Export Development Program had called for the establishment of an export inspection service, and government certification was required for certain commodities prior to export. However, the system was inadequate, and could not possibly cope with all the requirements.

As a result of the program developed by EPSC and MCI, USOM agreed to furnish assistance and technical help in many fields. An advisor was appointed to the export laboratory. Four specialist technicians were assigned to KPC. A consultant was brought in to review KOTRA activities. Other consultants were brought in to study quality control, the men's apparel industry, marketing, and handicrafts.

In the field of agricultural development for export, new products were being developed and programs devised to export canned and preserved fruits, vegetables and seafood.

Obviously, until the Korean businessmen were convinced that this help was essential, and they were willing to make their own efforts, the program would be useless. There is one specific project that should be noted in particular for many similar ones hopefully to follow. The City of Taegu, which is the fourth largest industrial center in Korea, contains a variety of industries. One plant in particular, Cheil Wool Company, is one of the most

modern and best wool weaving companies, equal to the best in the world. The sixteen leading industrialists in Taegu had formed an industry association, and established their own productivity center. They had appealed to USOM for help. In addition to the industrialists, the local government officials and chamber of commerce were also involved. The local government decided to contribute toward a new building for an expanded laboratory. USOM contributed some funds for its equipment. After agreement with the local committee to contribute local staff, and money, USOM agreed to send six technicians to work in Taegu at the factory level. This regional approach is already proving its merit, and has received enthusiastic support of the local business community. Other cities and areas are observing this experiment, and have indicated interest in developing similar projects of their own.

A program of sending teams of Koreans from specific industries and interests to nearby countries to study the methods used these countries was undertaken. USOM financed teams in quality control, the garment industry, handicraft, and ceramics. The teams visited Japan, Taipei and Hong Kong. A team of top-level business executives was sent to the United States as an "impact" group to meet with top American business management.

During the summers of 1965 and 1966 four participants were sent each year to the International Marketing Institute seminar in Cambridge, Massachusetts to participate in studies on marketing, which included trips to many cities in the United States.

Upon their return, these teams and individuals prepared reports, and, with varying degrees of success, their knowledge obtained on these trips was passed on to others.

Procedures

Almost immediately after my arrival in Korea, the Minister of Commerce and Industry called attention to the fact that procedures and paperwork were cumbersome and time consuming. This office proceeded to make three careful studies of the procedures involved in exporting, importing raw materials, and procedures required for businessmen to travel abroad. These were presented to the government and substantiated what had been suspected by the Minister. The Procedures Committee of EPSC did some work in reducing the amount of paperwork time involved. MCI has now requested USOM to supply a disinterested outside consultant to assist in improving export procedures. EPSC also determined that it would be desirable to establish an international commercial arbitration system to handle disputes and claims arising between foreign and Korean businessmen. Enabling legislation was passed in March of 1966, and the Korea Chamber of Commerce established a Commercial Arbitration Association. USOM has been asked to supply a consultant to assist in the implementation of the law.

EPSC also recommended the establishment of an export insurance system. This should be very helpful, particularly if it becomes possible in the future to sell on credit terms. USOM has been asked to supply a consultant to assist in establishing such a system.

Results

All the above obviously can only touch on a small portion of the export activities. It also concerns itself, to a large extent, with those activities in which USOM and this advisor are involved. Simultaneously, and in many ways, individual businessmen, and traders were engaged in developing exports, selling and traveling abroad to promote their business. American traders of long residence in Korea were directing more and more of their efforts away from imports to exports. Most of the effort was due to the work of the Koreans themselves, and their success has been phenomenal. Exports have grown from \$32 million in 1960 to a target of \$250 million established for 1966, which will undoubtedly be achieved. Outsiders such as ourselves, have only been able to assist and advise. The bulk of the work is being done by Korean Government officials and businessmen. As they gain experience and knowledge, less and less assistance will be required from outsiders, and in the not too distant future, Korea will require little or no assistance in this field.

Military Purchasing

Purchasing by U.S. military forces located in Korea has created a steady and substantial amount of dollar earnings. These have been approximately \$35 million annually since 1960. In 1964 the figure was \$34,410,000. There is an obvious built-in limitation in the possibilities of large increases. The U.S. gold flow problem as well as the inability of Korean industry to produce many of the items required, added to the limitations of the whole buying program, precludes any large-scale increases. Nevertheless, early in our activities we determined to investigate the possibilities of a further development of sales to the military. This could not only serve the purpose of increased dollar earnings, but it would also help Korean industry develop products that could be also be sold commercially. The U.S. Army had already done a good deal of work in assisting Koreans to produce new products acceptable to the high standards demanded by them. Such items as rubber tires, auto batteries, shrimp, and many other products were directly a result of these activities. With the new industries developed, Koreans felt they could produce still more acceptable items.

It is the job of the Korea Purchasing Agency (U.S. Armed Forces) to buy items of prescribed quality, proper delivery and at the lowest possible price. USOM's role is to assist the Koreans to meet these requirements.

With the cooperation of KPA, a list of items were examined. The "Buy American" policy determined where most of the products required would be purchased. It was therefore decided to limit our activities to assist in those items now being purchased offshore. In practice, this was mostly from Japan. In addition to commodity purchasing, there was also purchasing for the PX System.

It was during this period that the highly sensitive negotiations between Korean and Japan were taking place, looking towards establishing normalization of relations. In addition to the possibility of increased sales, there was an important psychological necessity to have goods used in Korea, purchased in Korea.

With the cooperation of the Armed Forces, numerous discussions were held in Seoul, Tokyo, and Washington. At the request of the Country Team, an investigating team was sent here from the Department of Defense in Washington to study methods of assisting in this process. Simultaneously, the development of the Vietnamese situation created further possibilities for Korean sales, including construction and manpower contracts.

The combined effort of the Korean Government and KPA, with an assist from USOM, resulted in an increase in sales for use in Korea. In 1965 there was an increase in sales to \$38,542,000, and the goal for 1966, which we have every reason to believe will be reached, is \$50,000,000. Contracts for construction and services in Viet Nam as of August 31, 1966 were approximately \$32 million, while commodity, military, and PX sales for delivery in Viet Nam were \$24 million for the same period. This compares with total exports to Viet Nam for 1965 of \$19 million.

Tourism

While tourism is not in itself involved in commodity exporting, it does create the possibilities of large foreign exchange earnings, and also helps develop the demand for Korean exports. Because of this, we began examining the possibilities involved in this field. It did not take us long to discover that Korea possessed the potential for substantial tourist earnings. It also did not take long to discover, that even from a layman's point of view, the facilities available were inadequate and not up to international standards.

Although the record showed that in 1964 there were approximately 25,000 visitors to Korea, only about 1,000 were actually tourists. Even accepting the total figure, it seemed small in comparison to the possibilities.

In 1961, under the sponsorship of the U. S. Department of Commerce, a study entitled "The Future of Tourism in the Pacific and Far East" had been made by Checchi & Company of Washington. One chapter out of twenty-one chapters was devoted to South Korea. Even when this report was written, it predicted that by 1968 there could be 120,000 visitors coming to Korea. But the conditions, facilities and services described as then existing in that report had hardly changed between 1961 and 1964. The Walker Hill resort had been completed but it had not fulfilled its promise as an attraction for GIs and tourists, and was operating unprofitably.

The Koreans concept of a vacation which they enjoyed, consisted going to one of the mountain areas, often built around an old Buddhist temple, and resting quietly in simple surroundings, enjoying the beauty and tranquility of nature. Those authorities interested in tourism had built a number of tourist hotels in various parts of Korea, in the mountains and remote cities. There were plans to build hostels, spend money on roads to mountain temples and remote areas. There was a scheme to develop Cheju Island into a sort of Bermuda.

The Korea Tourist Service owns and operates the three largest hotels in Seoul, the tourist hotels throughout the country, the foreigners' commissary, and other facilities. The Korea Tourist Bureau, which was financed by the Korea Tourist Service, was presumably the promotion agent for tourism. All tourist activities were under the direction of the Ministry of Transportation.

In addition, there was through airplane service on the international route between Japan and Hong Kong but Seoul was a side trip at extra cost.

There was no deluxe class hotel in existence. Restaurants, transportation and above all, tourist shopping, was not up to the standards that would invite the international middle-class tourist.

The best potential source of tourists is Japan. With the conclusion of the Korean-Japanese normalization treaty, and the subsequent opening of Korea to the Japanese, there was every possible hope that the Japanese would come to Korea in large numbers.

Early in 1965 the Pacific Air Transport Association held a convention in Seoul. This brought a great many professional tourist agents to Korea. With the assistance of the Minister of Transportation we arranged a meeting of the leading wholesale tourist agents to discuss with them steps that should be taken to develop tourism. This meeting was very fruitful. They introduced a resolution at the conference requesting steps be taken to include Seoul as a "free stop" in air travel. Subsequently, this was adopted by International Air Transport Association (IATA) and has been very helpful.

We began a series of conferences with the whole range of public and private officials interested in tourism. Many suggestions were discussed and some adopted. At the request of the Minister of Transportation, USOM brought to Korea Mr. Morton D. Kauffman as a consultant on tourism. After several months of work in his part, he prepared a lengthy and detailed report with recommendations for action. The report is now being printed, and will shortly be distributed to the government. However, a short summary of the report had been previously delivered to the government. In this report Mr. Kauffman predicts that in the year 1971 there will be 200,000 visitors to Korea, who will spend approximately \$100 million in foreign exchange. If realized, this will make tourism the second largest foreign exchange earner, after manufactured goods. He clearly indicates these predictions will come true only if suggestions and recommendations contained in his report are implemented.

Even before Mr. Kauffman's arrival, it became evident that one of the most important needs was that of a deluxe hotel. In his report he states (July, 1966) a minimal need for 500 new hotel rooms. At the request of the Minister of Transportation, we communicated with the three leading hotel chains, Hilton, Intercontinental, and Sheraton Hotels. All three wrote that they were very interested in the possibilities. During the trip on which I accompanied Mr. Oh Pum Sik through the United States, we visited the headquarters of all three hotel chains, and they agreed to send representatives to Korea to study the possibilities of building a hotel here. By that time, Korean Government authorities had decided that building more facilities in the countryside would not be productive, and became very interested in the possibility of such a major hotel expansion in Seoul. As a result, the Economic Planning Board has employed an American consulting firm to make a feasibility study of the possibility of increasing hotel rooms and/or building a new hotel in Seoul. A great deal of interest has been aroused in these possibilities, and numerous individuals and the government itself are awaiting the results of this study to determine exactly what should be done in this area. In the meantime, with ROK sponsored financing, a number of existing hotels are expanding and improving their services and facilities.

Tourism is already substantially increasing. Many groups of Japanese are already coming to Korea, and at the present time it is often difficult to obtain adequate hotel space in Seoul. A number of important conferences and conventions have been held here, and there is every hope for a bright future for tourism.

However, the number of tourists, length of their stay, and the amount they spend here will be determined by the positive action taken by the Korean Government and the businessmen involved in tourism to improve their facilities, restaurants, transportation, hotel service, museums, cultural attractions and all other facilities that are necessary for this purpose. Much is still to be done.

One of the planned attractions is the development of a consumer goods display center, centrally located, attractively laid out, with attractive displays, designed to interest foreign tourists and buyers. The recently built Bando-Chosen Arcade is an nice looking building, but the displays and stores are in the traditional Korean style, designed to attract the Korean buyer. Lacking any other facility it now does attracts tourists, but the new proposed display center should be much more effective.

Seoul and Korea have very many interesting and beautiful palaces, museums, parks, places of historical interest and natural beauty. Korean products, properly displayed and with proper store service can develop substantial earnings from tourists shopping here. Properly organized and well developed, Seoul and Korea can fulfill the promise indicated in the Kauffman report.

Export Development Office Activities

At the conclusion of our work here, and at the request of the Mission Director, we prepared the following list of activities in which this office participated. This list in itself can assist as a guide to the wide areas that were involved in the whole development of the export program.

1. Putting foreign businessmen in touch with the appropriate businessmen, traders, KOTRA, KTA and government officials; and USOM and Embassy personnel. This often involves personal introduction and attendance.
2. Assisting Korean businessmen with various problems concerning exports. Putting them in touch with buyers; giving information re export markets and contacts with Korean and U.S. officials.
3. Correspondence with Korean and foreign businessmen.
4. Maintaining contacts with:

Business Organizations including:
Korean Businessmens Association
Korean Traders Association
Korean Chamber of Commerce
National Federation of Medium Industry Cooperatives
Korean Marketing Association
American Chamber of Commerce

5. Keeping all export and export-related statistics. Maintaining book of statistics and charts.

6. Contacts with ROKG re export development

| | |
|------------------------------------|--|
| MCI | Minister Park Choong Hoon |
| | Vice Minister Lee Chul Seung |
| MCI - exports & finance and credit | - Asst. Minister Kim Woo Keun |
| | Overseas Marketing Section |
| | Market Promotion Section |
| MCI - technical problems on export | - Asst. Minister Lee Woo Ryong |
| | First Industry Section--garment, ceramics, canning |
| KOTRA | President Oh Pum Sik |
| MOFA | Asst. Minister Chyun Sang Jin |
| | Trade Promotion Section |
| MOFA | Export Development |
| EPB | Vice Minister Kim Hak Yul |
| | Yang Yoon Se, Chief, Overall Program Section - technical development |
| KFC | |

7. Tourism and Hotels

| | |
|-------------------|--------------------------------|
| MOT | Minister Ahn Kyung Mo |
| | Bureau of Tourism |
| KTS - KTB | General Kim Il Hwan, President |
| Hotels & airlines | |
| Travel agents | |

8. Military Purchasing for Use in Korea

Membership Joint US-ROK Military Purchasing Committee

- KPA
- U.S. Corps of Engineers
- KMAC
- PX - Korea
- MCI - Military Purchasing Section
- Association of Military Goods Suppliers in Korea
- Korea Military Construction Contractors Association

9. Military Purchasing for Use in Viet Nam

Same group as No. 8
Ministry of Labor
10. Consultants

| | |
|------------------------------|---|
| KOTRA | Mr. Jerome Udell |
| Tourism | Mr. Mort Kauffman |
| Consumer Good Display Center | Mr. Theodore Jones (under Dick Goodrich, IED) |
| IESC (assisting) | Mr. Lee Burns |
| Arbitration | Korean Chamber of Commerce |
| Export Insurance | MCI |
| Procedures | MCI |
| Marketing Export | MCI, KOTRA KMA |
11. Liaison with Embassy Economic Section, Commercial Attache
12. USOM Joint Activities

Export Promotion Committee
Foreign Investment Inducement Committee
Small & Medium Business Committee
Export Finance - Gil Brown
13. Work with EPSC (Export Promotion Sub-committee)
 - (1)
 - a. Numerous meetings with Co-steering committee members, Asst. Minister Kim Woo Keun, MCI
 - b. Constant meetings with co-secretariat member Kim Chang Dong, MCI
 - c. Meeting with USOM members of Working Committees
 - d. Preparing agenda
 - e. Writing minutes
 - f. Constant follow-up on work of Working Committees
 - g. Translating and summarising minutes of Working Committees
 - h. Arranging meetings of EPSC
 - (2) All agendas, minutes, etc., are checked with the approved by Korean counterparts. Final agenda requires approval of Co-chairmen Vice Minister Lee Chul Seung and Deputy Director Roger Ernst.

- (3) Annual analysis and report prepared for oral and written delivery to ECC. (DPM Chung and Director Joel Bernstein) This report has had great influence in formulating the following year's ROKG "Export Promotion Policy & Program"

14. Annual Preparation of "Export Promotion Policy & Program"

This is one of the most important jobs of the year. This work is initiated by Vice Minister Lee Chul Seung and Amicus Most. It has been followed by a series of informal working meetings inside USOM with various division chiefs and appropriate staff members. A series of meetings are held with Vice Minister Lee and Assistant Minister Kim. Usually Gil Brown attends the meeting on problems of finance. There is at least one meeting with Minister Park Choong Hoon. There are usually several meetings with Director Bernstein, and the final USOM position paper is approved by him.

15. Translating trade policies and regulations for distribution throughout USOM.

16. Arranging and organizing Participant Training Programs such as

- (1) Trainees for International Marketing Institute - Cambridge Mass.
- (2) Trainees for Tourism and Hotel Hawaii.
- (3) Teams to visit neighboring countries
 - a. Garments
 - b. Handicrafts
 - c. Ceramics

17. Organizing and assisting trade missions to and from Korea.

18. Trips to neighboring countries to work with Korean Overseas Trade Missions

19. Visits to factories throughout Korea.

20. Speaking at seminars, trade meetings, universities, conferences, KMAG etc.

Conclusion

The following quotation of the last paragraph of the attached report is well worth repeating.

"Korea can well be proud of its tremendous progress in developing its exports. Its success has been due primarily to the efforts of Korean themselves. Government, private organizations and businessmen have each contributed their share. Whatever part we outsiders have been able to contribute to this effort has only been possible because of the determined Korean

drive to sell more overseas. This spirit, plus Korea's inherent potential in a wide variety of export products, makes Korea's export prospects bright. The directions of effort needed to realize these prospects fully have already been identified. What is needed is to carry on with the work, along the lines that have been indicated."

The world will learn a lesson from these remarkable achievements. It has not been easy for a people whose tradition and history was one of learning rather than trade to combine the best of their old traditions with the modern ways required to develop an industrial economy. They are succeeding beyond the fondest hopes of several years ago. What they have done is wellworth studying so that other may learn from their activities.

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